

**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
SHERIFF**

**For the Year Ended
December 31, 2005**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CALLOWAY COUNTY SHERIFF

For the Year Ended
December 31, 2005

We have completed the Calloway County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$7,179 from the prior year, resulting in excess fees of \$8,779 as of December 31, 2005. Revenues decreased by \$19,853 from the prior year and expenditures decreased by \$12,674.

Debt Obligation:

Total debt principal as of December 31, 2005 was \$1,836. Future collections of \$1,922 are needed over the next 2 years to pay all debt principal and interest.

Report Comments:

- Original Source Documents Should Be Retained To Substantiate Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank provided securities at year end.

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MARTIN, COLSON, HALE & HENDERSON

Certified Public Accountants

502 Maple Street
Murray, Kentucky 42071

Robert K. Martin, CPA
Ronald C. Colson, CPA
Matthew H. Hale, CPA, PFS
Rhonda M. Henderson, CPA

TELEPHONE (270) 753-5411
FAX (270) 753-1732
E-MAIL mch@mchcpas.com

The Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Larry Roberts, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures and excess fees - regulatory basis of the Sheriff of Calloway County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Larry Roberts, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Original Source Documents Should Be Retained To Substantiate Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Calloway County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Martin, Colson, Hale & Henderson

Martin, Colson, Hale and Henderson
September 28, 2006

Calloway County
Larry Roberts, County Sheriff
STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS
For the Year Ended December 31, 2005

Revenues

Federal Grants: (Note 4)

| | | |
|----------------------------|---------------|-----------|
| Pennyrile Narcotics | \$ 6,180 | |
| Tri-County Drug Task Force | <u>22,375</u> | \$ 28,555 |

State Grants:

| | | |
|-------------------------------------|--------------|--------|
| Kentucky Law Enforcement Foundation | 58,929 | |
| Local Law Enforcement Block Grant | <u>2,403</u> | 61,332 |

State Fees for Services:

| | | |
|------------------------------------|--|---------|
| Finance and Administration Cabinet | | 102,213 |
|------------------------------------|--|---------|

Circuit Court Clerk:

| | | |
|--------------------------|-----------|-------|
| Sheriff Security Service | 9,117 | |
| Fines and Fees Collected | <u>74</u> | 9,191 |

Fiscal Court:

| | | |
|-------------------------------------|---------------|---------|
| Employer's Share of Social Security | 59,936 | |
| Fiscal Court Appropriation | 75,000 | |
| Dispatch Contributions | 140,000 | |
| Drug Enforcement Support | <u>12,732</u> | 287,668 |

| | | |
|-------------------------------|--|-------|
| County Clerk-Delinquent Taxes | | 4,094 |
|-------------------------------|--|-------|

| | | |
|--------------------------------|--|---------|
| Commissions On Taxes Collected | | 363,796 |
|--------------------------------|--|---------|

| | | |
|-------------|--|--------|
| Add On Fees | | 32,965 |
|-------------|--|--------|

| | | |
|------------------|--|-------|
| Advertising Fees | | 7,216 |
|------------------|--|-------|

Fees Collected For Services:

| | | |
|--|---------------|--------|
| Auto Inspections | 20,305 | |
| Carrying Concealed Deadly Weapon Permits | 11,575 | |
| Transporting Prisoners | 4,455 | |
| Serving Papers | <u>34,665</u> | 71,000 |

Other:

| | | |
|-------------------------------|---------------|--------|
| Miscellaneous | 13,529 | |
| Miscellaneous Reimbursements | 6,515 | |
| City of Hazel-Law Enforcement | 9,200 | |
| Insurance Reimbursements | 3,896 | |
| School Security | <u>58,547</u> | 91,687 |

| | | |
|-----------------|--|-------|
| Interest Earned | | 4,290 |
|-----------------|--|-------|

Borrowed Money:

| | | |
|-----------------------|----------------|----------------|
| Drug Fund Advancement | 6,510 | |
| State Advancement | <u>213,000</u> | <u>219,510</u> |

| | | |
|----------------|--|---------------------|
| Total Revenues | | \$ <u>1,283,517</u> |
|----------------|--|---------------------|

The Accompanying Notes are an Integral Part of this Financial Statement

Calloway County
 Larry Roberts, County Sheriff
 STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS
 For the Year Ended December 31, 2005

Expenditures

Operating Expenditures and Capital Outlay:

| | | | |
|--|------------|-------------------|--------------------|
| Personnel Services- | | | |
| Deputies' Salaries | | \$ 768,867 | |
| Employee Benefits- | | | |
| Employer's Share Social Security | | 59,936 | |
| Materials and Supplies- | | | |
| Office Materials and Supplies | | 2,548 | |
| Auto Expense- | | | |
| Maintenance and Repairs | | 58,968 | |
| Other Charges- | | | |
| Conventions and Travel | \$ 12,226 | | |
| Civil Process | 1,007 | | |
| Carrying Concealed Deadly Weapon Permits | 9,560 | | |
| Miscellaneous | 11,698 | | |
| Equipment Repairs and Maintenance | 29,413 | | |
| Reimburse Drug Seizure Fund | 1,835 | | |
| Court Fees-County Portion | 9,720 | | |
| Lease Payments | 3,391 | | |
| Dispatch Expense | <u>480</u> | 79,330 | |
| Capital Outlay- | | | |
| Vehicles and Equipment | | 7,144 | |
| Debt Service: | | | |
| Drug Fund | \$ 6,510 | | |
| State Advancement | 213,000 | | |
| Murray Bank-Auto Loan | 1,561 | | |
| Interest | <u>222</u> | <u>221,293</u> | |
| Total Expenditures | | | <u>\$1,198,086</u> |
| Net Revenues | | \$ 85,431 | |
| Less: Statutory Maximum (Sheriff Salary) | | (<u>74,257</u>) | |
| Excess Fees | | \$ 11,174 | |
| Less: Training Incentive Benefit | | (<u>2,395</u>) | |
| Balance Due at Completion of Audit | | | <u>\$ 8,779</u> |

The Accompanying Notes are an Integral Part of this Financial Statement

CALLOWAY COUNTY
LARRY ROBERTS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005

Note 1: Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CALLOWAY COUNTY
LARRY ROBERTS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2: Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months of the year and 10.98 percent for the last six months of the year

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3: Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CALLOWAY COUNTY
LARRY ROBERTS, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4: Grants

During the calendar year, the Sheriff's office received funds from two federal grants. The Sheriff received \$22,375 from the Tri-County Drug Task Force and \$6,180 from the Pennyrile Narcotics program.

Note 5: Note Payable

The office of the County Sheriff is liable for a secured note payable to the Murray Bank in the amount of \$1,836. The purpose of the note was the purchase of a 1998 Ford patrol car. The note matures in January 2007 and the interest rate is 7.95 percent. During 2005, \$1,561 of principal was paid on this note. The note has 13 remaining payments of \$148 per month. The office of the County Sheriff was in compliance with the terms of the agreement as of December 31, 2005.

These installment notes are due over the next 5 (five) years as follows:

| | Principal | Interest | Total |
|-------|-----------------|--------------|-----------------|
| 2006 | 1,690 | 85 | 1,775 |
| 2007 | <u>146</u> | <u>1</u> | <u>147</u> |
| Total | <u>\$ 1,836</u> | <u>\$ 86</u> | <u>\$ 1,922</u> |

Note 6: Drug Fund

The Calloway County Sheriff's office established a Drug Fund on February 14, 2000 with seizures received from various court cases. The beginning balance was \$11,118 as of January 1, 2005. Receipts were \$14,561 and disbursements were \$16,997, leaving an ending balance of \$8,682 as of December 31, 2005.

Note 7: Unrefundable Duplicate Payments And Unexplained Revenues Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained revenues in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time the funds should be turned over to the Kentucky State Treasurer in accordance with KRS 393.110. For the 2005 and prior years taxes, the Sheriff had \$4,347 in unrefundable duplicate payments and unexplained revenues. Therefore, the Sheriff should send a written report to the Treasury Department and should remit \$4,347 to the Kentucky State Treasurer.

COMMENTS AND RECOMMENDATIONS

CALLOWAY COUNTY
LARRY ROBERTS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For the Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

Original Source Documents Should Be Retained To Substantiate Expenditures

KRS 68.210 requires the Sheriff's office to maintain an accounting system that follows the uniform budget system as established by the state and local finance officer. Under this system original documents must be retained to substantiate expenditures incurred by the office. We recommend that instead of making copies of small cash register receipts the original receipt be retained.

Sheriff's Response:

This will be done in the future.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically review the daily checkout sheet and daily bank deposit. The daily checkout sheet should agree to the daily receipts ledger and any differences noted should be investigated.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should prepare a monthly bank reconciliation that should reconcile to the receipts and disbursements ledgers.

Sheriff's Response:

Due to the small size of the staff, it is not always possible to segregate the duties. The Sheriff does review all invoices and monthly reports.

PRIOR YEAR:

Collateral Should Be Maintained At A level In Excess Of Cash Balances At All Times

This item has been corrected.

Lacks Adequate Segregation Of Duties

This item has not been corrected and is repeated above.

Salaries Paid By The Sheriff's Office Should Not Exceed Salary Limitations Set By Fiscal Court

This item has been corrected.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MARTIN, COLSON, HALE & HENDERSON

Certified Public Accountants

502 Maple Street
Murray, Kentucky 42071

Robert K. Martin, CPA
Ronald C. Colson, CPA
Matthew H. Hale, CPA, PFS
Rhonda M. Henderson, CPA

TELEPHONE (270) 753-5411
FAX (270) 753-1732
E-MAIL mch@mchcpas.com

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Calloway County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated September 28, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calloway County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations section.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Calloway County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- Original Source Documents Should Be Retained To Substantiate Expenditures

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

Martin, Colson, Hale & Henderson

Martin, Colson, Hale and Henderson
September 28, 2006